THE PRINCE EDWARD ISLAND ECONOMY PROGRESS REPORT 2000

Introduction

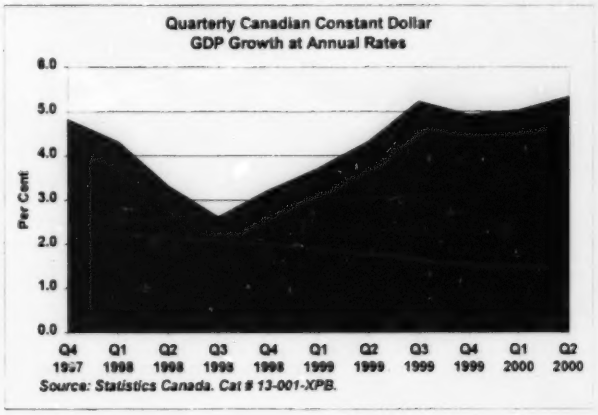
This report summarizes the progress of the Prince Edward Island economy in 2000. The current data shows that the provincial economy is growing at a brisk pace. Employment growth on the Island is the highest in Canada and the unemployment rate has fallen significantly. Consumer confidence is bolstered by strong labour markets and rising personal incomes and this in turn reflects a strong export performance.

The Island economy is referenced in the context of the national economic perspective. Emerging trends in key economic indicators are identified and discussed including employment, prices, consumer spending, manufacturing, construction and the primary industries. An electronic copy of this document is available from the provincial government web site at http://www.gov.pe.ca/

Canadian Economy

The national economic performance in 2000 has been very strong. Growth of federal Gross Domestic Product in Constant Dollars (GDP) during the first two quarters exceeded 5.0 per cent at annual rates. In the Economic Statement and Budget Update, presented on October 18, 2000, it is noted "The last three months marked the 20th consecutive quarter of growth - the longest sustained period of gain since the mid-1960s." As can be seen in Figure 1, growth of the Canadian GDP has accelerated since the third quarter of 1998.

Figure 1



Vigorous employment growth and low unemployment have continued to boost domestic demand for consumer products. The national unemployment rate has fallen steadily from 10.1 per cent in October 1996 to 6.9 per cent in October 2000. Canadian exports have remained strong as the US economy has maintained its momentum through 2000. Concerns over the 15.1 per cent rise in energy prices between October 1999 and October 2000 causing a rapid inflationary cycle appear

unfounded to this point, as the core price index excluding energy and food prices has increased by a modest 1.3 per cent.

The Island Economy

The Prince Edward Island economy is also performing well in 2000. The rate of employment growth on Prince Edward Island this year is by far the highest in the country.

Private sector forecasts of GDP growth for Prince Edward Island the other Atlantic provinces and Canada can be compared in Table 1.

Table 1. Private Sector Forecasts of Gross Domestic Product Growth in 2000.

	PEI	NB	NS	NFLD	Canada
Bank of Nova Scotia	**3.4**	3.0	2.8	5.0	4.8
Toronto Dominion Bank	**4.2**	4.0	3.0	5.0	4.6
Royal Bank of Canada	**4.0**	3.2	3.1	5.6	4.7
Canadian Imperial Bank of Canada	**3.0**	3.5	3.0	5.0	4.7
Bank of Montreal	**4.5**	2.9	3.0	4.8	4.4
Conference Board of Canada	**3.6**	4.4	2.1	5.0	5.1
Average	**3.8**	3.5	2.8	5.1	4.7

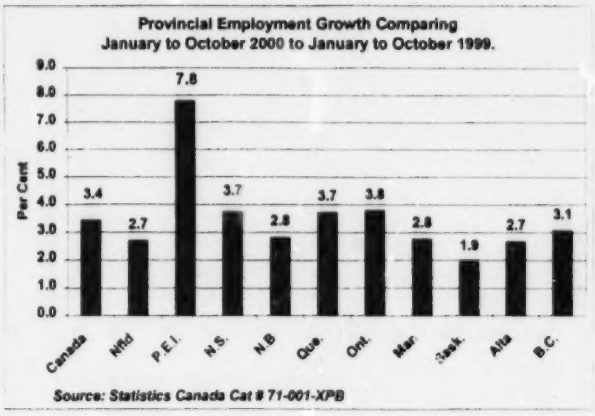
Newfoundland has one of the highest growth rates in Canada in 2000, and in the Atlantic region, the GDP growth forecast for Prince Edward Island exceeds that of both Nova Scotia and New Brunswick.

Statistics Canada recently released the Provincial Economic Accounts for 1999. They indicate that constant dollar GDP at market prices on Prince Edward Island expanded by 3.2 per cent, to value $2.994 billion that year. 1999 is the most recent year for which official GDP statistics are available. The Statistics Canada GDP numbers confirm the unofficial estimates of growth in 1999 for PEI that were previously used.

Labour Market

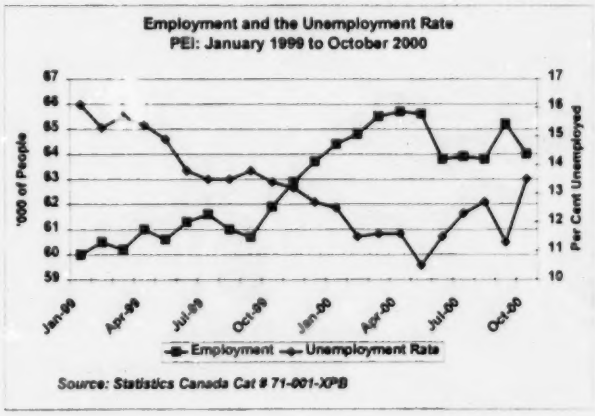
Vigorous economic growth in 2000 has improved the labour market conditions on Prince Edward Island. Employment growth surged by 7.8 per cent during the first ten months of 2000 compared to this period in 1999. The extraordinary rate of employment growth on Prince Edward Island is easily the fastest in the nation. The year to date growth in the employment figures for Prince Edward Island is almost two and a half times the national rate and over twice the rate in Ontario, as shown in Figure 2. The growth in employment means that on average 4,700 more people are working as compared to last year.

Figure 2



Strong employment growth during 2000 has put downward pressure on the unemployment rate, causing it to decline 2.6 percentage points from the same period last year to average 11.9 per cent year to date. This is the lowest since the early 80's. Figure 3 shows Prince Edward Island's employment rising from 60,000 in January 1999, to 64,000 people in October 2000. Significant gains in employment have caused the unemployment rate to decline by 2.6 percentage points from 16.1 per cent in January of 1999 to 13.5 per cent in October 2000. The recent employment increases are balanced across all sectors of the economy. The largest increase in employment occurred in the service sector accounting for over 60 per cent of the total employment growth. Employment growth in the goods producing sector was highlighted by increases in agriculture and manufacturing.

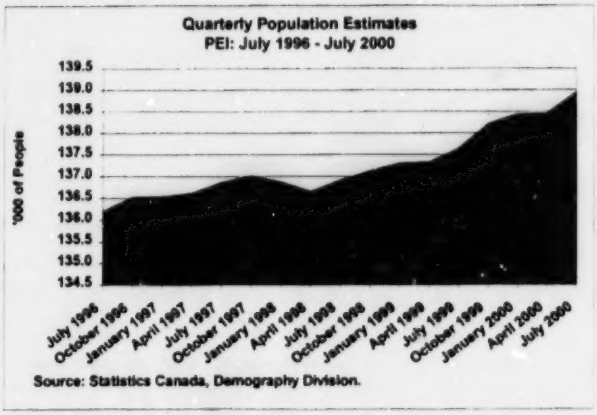
Figure 3



Population

Statistics Canada estimates that on July 1, 2000 the Prince Edward Island population expanded to 138,928 people. This represents an increase of 1,289 people or 0.94 per cent compared to July 1, 1999. Prince Edward Island ranked third in terms of population growth after Ontario and Alberta. Net inter-provincial migration from Newfoundland was the main factor accounting for 18.1 per cent of the total population increase. Figure 4 displays the upward trend in Prince Edward Island's quarterly population estimates since July of 1996.

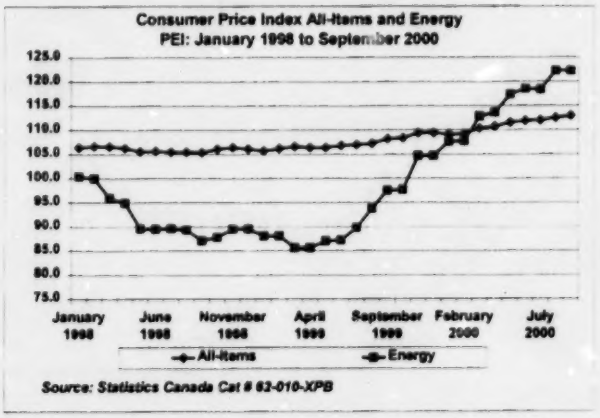
Figure 4



Consumer Prices

The rising prices for gas and oil have put significant upward pressure on the Consumer Price Index (CPI) over the last twelve months and the situation for PEI has been particularly difficult. The CPI for Prince Edward Island increased by 4.1 per cent during the first nine months of 2000, compared to a Canadian increase of 2.6 per cent. The main reason for the sharp rise on PEI is the Island's dependency on imported oil and gasoline.

Figure 5

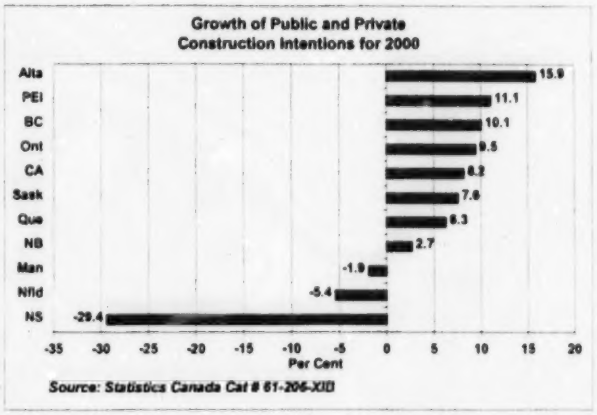


Energy prices in September 2000 on Prince Edward Island were 25.3 per cent higher compared to just one year ago. Heating fuel-oil and gasoline prices in September 2000 of this year have increased by 39.4 per cent and 29.5 per cent respectively from September 1999. The Island's regulated price system has softened the initial price increases to some degree. As can be seen in Figure 5, energy prices accelerated from the Spring of 1999. Petroleum prices on Prince Edward Island during 1998 and 1999 were actually lower than the national average. In September 2000, home heating oil prices on Prince Edward Island were still about 10 cents per litre lower than in neighbouring Atlantic provinces. Neither heating oil nor petroleum products are subject to provincial sales tax on PEI, unlike the situation in provinces with Harmonized Sales Tax (HST). Notwithstanding the pressure

from rising energy prices on PEI, the increase in consumer prices excluding energy, was subdued at 1.2 per cent year to date.

Construction and Housing

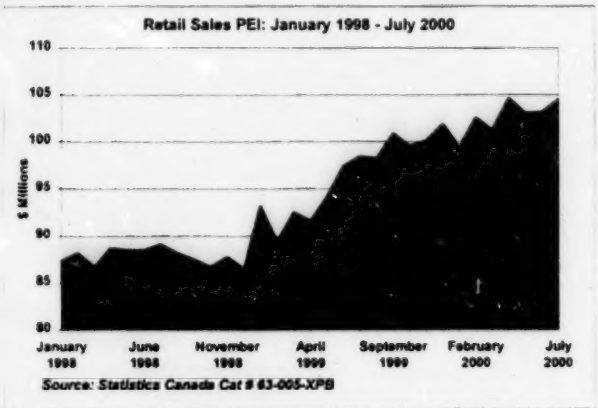
Figure 6



Construction activity on Prince Edward Island in 2000 is buoyant according to Statistics Canada's revised Private and Public Investment Intentions. Revised estimates for 2000 on Prince Edward Island shows construction totalling $301.8 million, for growth of 11.1 per cent compared with 1999. Figure 6 compares construction growth among provinces, and one can see that PEI is one of the most vigorous in the country. Construction of new retail outlets in Charlottetown, a new hospital in Summerside and school construction and renovations throughout the province are the main factors in the totals. Residential housing starts are up as well. Total urban and rural housing starts for the first three-quarters are up 5.1 per cent, compared to the same period in 1999. Strength in rural housing starts offset a reduction in multi-unit urban housing starts. Residential building permits totalled $44 million for the first eight months of 2000, down half a per cent from the same period last year.

The recently announced six year $38.4 million federal / provincial infrastructure program will focus on upgrades to sewer and water treatment systems throughout the province.

Figure 7



Consumer Spending

The buoyant economic conditions in 2000 on Prince Edward Island are evident in consumer spending. Seasonally adjusted retail sales on Prince Edward Island have increased by 9.4 per cent during the first half of 2000. This growth in consumer spending is in addition to the near double-digit growth recorded last year. The rapid growth in monthly retail sales since early 1999, is evident from Figure 7.

The retail sector has expanded significantly in 2000 with several new major retail outlets on Prince Edward Island.

The value of new vehicle sales increased by 10.1 per cent and the number of units sold increased by 8.1 per cent in the first seven months of 2000, compared to the same period last year. Sales of commercial vehicles account for over half the growth in the value of new vehicle sales.

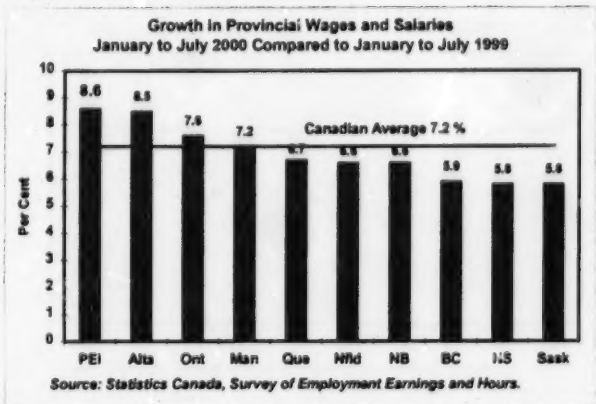
Tourism in 2000 was highlighted by events commemorating the completion of Prince Edward Island's section of the Trans Canada Trail, the Lorie Kane Island Challenge golf skins game in August and the arrival of the "largest ever" motorhome rally to the Island. The Lorie Kane Island Challenge golf skins game was attended by over 4,000 spectators and was televised on a cable network to an audience in excess of one million people. Prince Edward Island's section of the Trans Canada Trail was officially opened at Summerside on August 12, and several hundred motorhomes descended on Cabot Park during the last week in August to attend the Island leg of the "largest ever" motor home rally.

The provincial Department of Tourism released preliminary results from the 2000 tourism season on Saturday, October 14th showing a 7.5 per cent decline in the number of tourism visitors. The decline in visitor numbers was partially offset by an increase in the average amount spent, resulting in a decline of 3.5 per cent compared to 1999 levels. High fuel prices, a stronger Canadian dollar and several major headline events in neighbouring provinces contributed to the reduced tourist numbers on Prince Edward Island in 2000. The preliminary report was based on tourist information collected from June through September. The final report containing detailed analysis is scheduled for release during December 2000.

Personal Income

Growth of total wages and salaries earned on Prince Edward Island was the highest of any provinces at 8.6 per cent during the first seven months of the year, compared to 7.2 per cent nationally. Figure 8 shows Prince Edward Island leading all provinces. Vigorous employment growth on Prince Edward Island, complemented with the federal pay equity settlement resulted in the strong labour income growth on Prince Edward Island this year.

Figure 8



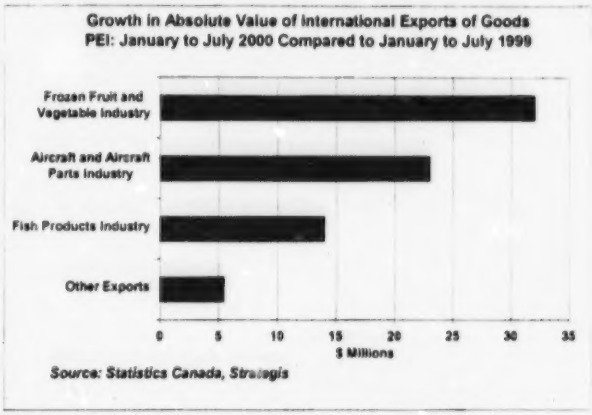
Manufacturing

The value of seasonally adjusted manufacturing shipments in the first seven months of 2000 was up by 3.3 per cent compared to the same period of 1999. Year to date the value of food production increased by 12.4 per cent, aided by a 29.9 per cent increase in the value of processed fish products. Employment in manufacturing has increased by 7.0 per cent in the first nine months of 2000 compared to the same period last year. Expansion continues in the Island's aerospace sector with further expansion planned beginning this fall.

Export Activity

A growing manufacturing based economy has led to a significant rise in the value of international exports from Prince Edward Island. The value of international exports of goods for the first seven months of 2000 expanded by 32.2 per cent, to total $354.4 million. Growth of international exports during 2000 is highlighted in Figure 9 by a $32.8 million increase in frozen fruit and vegetables, consisting mostly of frozen french fries; exports of aircraft parts increased by $23.0 million and processed fish exports increased by $14.0 million. International exports have become more important to the Island economy over the last decade. PEI exported 48 per cent of the manufactured goods internationally in 1990 and by 1999 exports had increased to 58 per cent.

Figure 9



Primary Sector

Statistics Canada's estimate of Canadian farm cash receipts was up 9.8 per cent in the first two quarters of 2000, compared to the same period during 1999. Farm cash receipts for Prince Edward Island however were down 6.2 per cent for the first six months of 2000. Weakness in the crop sector was partially offset by renewed strength in the livestock sector. Potato receipts totalling $105 million were 15.3 per cent lower than last year due to lower potato prices. Livestock receipts were bolstered by a 35.4 per cent increase in hog receipts and a 6.2 per cent increase in dairy products. A return to normal precipitation levels after a dry summer last year has provided a natural boost to the growing season. Preliminary information on the potato harvest shows that favourable weather conditions in 2000 have resulted in high quality tubers and average yields.

Total lobster landings in 2000 were about equal to the landings recorded in 1999 at 18.4 million pounds. Lobster prices were steady at $5.00/lb for markets and $4.00/lb for canner sized lobsters. As of October 18th Prince Edward Island's tuna landings totalled 206.5 tonnes representing 44.3 per cent of the Canadian tuna catch.

The slowdown in US housing starts has taken the pressure off lumber prices in recent months. The Island's largest lumber mill is currently improving and modernizing its production line and is the main factor for the decline in the value of wood product shipments this year. Demand for fuelwood is expected to increase this winter due to the rising price of home heating fuel.

Provincial Government

Prince Edward Island's long-term credit rating was upgraded by Dominion Bond Rating Service (DBRS) of Toronto on July 25, 2000. In the credit report DBRS stated that the Province's balanced approach to fiscal planning not only strengthened its financial profile, but has contributed to the improvement in Prince Edward Island's economic fundamentals. The credit upgrade restores the Provincial credit rating to its level prior to 1994.

On September 11, 2000, the First Ministers met in Ottawa and agreed to improved federal funding for health. Included in this agreement is $4.5 million for PEI to fund medical equipment, and a five-year plan to increase CHST funding to PEI by $12.4 million in 2001-2002 with additional amounts in the following four years.

A provincial general election was held on April 17, 2000. The election resulted in Conservative candidates being elected to 26 seats and a Liberal candidate being elected in one seat in the legislature. On May 1st 2000, Provincial Treasurer, Patricia Mella, tabled budget estimates confirming the spending initiatives and budgeted surpluses as presented in the Budget Address on March 17th.

Summary and Conclusions

The current information on the provincial economy shows sustained growth at rates rarely seen in the past century. The vigorous economic expansion during the last twelve months on Prince Edward Island has resulted in rapid employment growth and rising incomes. Increasing prosperity and an influx of in-migration to Prince Edward Island has led to a robust residential construction sector. Buoyant consumer and export activity have countered a modest drop in tourism.

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